Dufry chief speaks out on COVID-19 as company achieves 3% organic growth in 2019

“We have immediately implemented several worldwide initiatives to accelerate sales; to secure cash generation through renegotiations of rents and with brands, and to reduce costs through actions at third-party cost levels and with employee reorganizations” - Dufry Group CEO Julián Díaz

Dufry Group has reported a 1.9% increase in turnover to reach CHF 8,848.6 million (US$9,274.5 million) in 2019.

In the retailer’s results announcement, CEO Julián Díaz welcomed the strong annual result but spoke out about the effect of the COVID-19 pandemic on business this year.

He said: “At the beginning of 2020, we saw a further acceleration of the business. Then COVID-19 impacted our operations where we have exposure to Asian customers as well as in locations directly impacted by the phenomena. We have immediately implemented several worldwide initiatives to accelerate sales; to secure cash generation through renegotiations of rents and with brands, and to reduce costs through actions at third-party cost levels and with employee reorganizations. Currently it’s still challenging to estimate the impact for the full year.“

He said the group’s organic growth performance accelerated in January 2020, but in February performance was negative, reaching -7.3%. In February, Europe and Africa performed slightly negatively; Asia Pacific and Middle East reported negative growth at double-digit level; North America was negative at single digit, while Central and South America featured positive growth. Year-to-date until end of February organic growth was -2.3%; and year-to-date until March 8 organic growth was -3.8%.

The company has set up a special committee at the Global Executive Committee level and implemented an action plan to secure cash flow generation, drive sales and safeguard profitability. The action plan is monitored weekly and includes initiatives to accelerate sales volumes, maintain gross profit margin levels, reduce personnel and other expenses as well as renegotiate rents.

In total, these initiatives are expected to generate savings of CHF 60 million (US$62.9 million) on a consolidated full-year basis at adjusted operating profit level. In addition, measures to offset cash flow impacts have been launched, expected to generate in total a contribution of CHF 40 million (US$41.9 million) in the full year.

He said that Dufry Group did not anticipate any liquidity problems during the crisis.

He continued: “Provided that the situation improves in the second semester and considering that the third quarter is the most important for the company, Dufry expects to reach a negative, single-digit organic growth performance for the fully-year 2020, based on current information.”

Financial results

Dufry reported a 1.9% increase in turnover to reach CHF 8,848.6 million (US$9,274.5 million) in 2019.

Organic growth for the year stood at 3%, with like-for-like growth contributing 0.6% and net new concessions adding 2.4%.

In the fourth quarter, all divisions reported positive organic growth, resulting in a group performance of 3.1%, supported by a healthy like-for-like growth of 2.2%.

As part of its business development strategy, Dufry refurbished over 41,600 square meters to support like-for-like performance and opened and expanded some 33,900 square meters of gross retail space. This includes new shops in Russia, Mexico and the US and shops across 19 new ships.

Dufry also signed new contracts for close to 14,900 square meters of additional retail space to be opened during the next two years.

In November 2019, Dufry closed the acquisition of the 60% stake of RegStaer Vnukovo. In October, its subsidiary Hudson had already started to consolidate the newly acquired Brookstone shops in the US.

Europe and Africa

Turnover in the Europe and Africa region was CHF 3,850.9 million (US$4,036.3 million) in 2019 from CHF 3,828.2 million one year ago. Organic growth in the division reached 5.8% in the year and 7.5% in the fourth quarter. The like-for-like contribution remained strong during Q4, reaching 6.1%.

The UK and especially Spain continued to deliver solid performance for the year. The implementation of the pilot projects across five Spanish airports, including several commercial initiatives and best practices, were very successful, the company said, showing improving sales during the whole year.

Greece and especially Turkey maintained their positive momentum in 2019, delivering a solid growth. Other locations such as Malta, Italy and Finland also posted positive growth.

Africa saw a stronger performance in most operations, with Morocco, Kenya and Egypt growing double digit in the year.

Asia Pacific and Middle East

Turnover reached CHF 1,274.9 million (US$1,336.3 million) in 2019 from CHF 1,153.6 million in 2018. Organic growth for the year stood at 10.8% supported mainly by the contribution of new concessions in 2019. Like-for-like performance improved during the year, reaching 8.3% in the fourth quarter.

Eastern Europe posted positive performance, supported by Russia and Serbia.

Asia Pacific posted double-digit growth, mainly driven by Hong Kong with the successful opening in the MTR high-speed railway station, as well as the strong performance seen in Macau and the positive growth in Cambodia and China.

Australia also posted solid performance for the year, supported by the opening of new shops in Perth. The Middle East posted good performance, with solid growth in India, Sri Lanka and Sharjah.

North America

Turnover amounted to CHF 1,935.8 million (US$2,029 million) compared to CHF 1,884.4 million in 2018 and organic growth was 1.8% in the year.

The North American operation has been performing strongly for many years and in 2019 the duty paid business confirmed its resilience despite some temporary challenges, Dufry said. The duty free segment was negatively impacted by lower spending from Chinese passengers during the first nine months, but showed signs of a recovery in the fourth quarter of 2019.

Central and South America

Turnover stood at CHF 1,536.1 million (US$1,610 million) in 2019 versus CHF 1,617.0 million in 2018. Organic growth in the region was -6.3% in the year with performance in the fourth quarter turning positive at 0.2%, mainly supported by the implementation of commercial initiatives.

During 2019, performance in South America remained challenging, impacted by local currency devaluations, namely in Brazil and Argentina. Performance in Mexico was positive throughout the year, reaching solid results especially during the fourth quarter. The Dominican Republic posted positive growth, while the Caribbean was healthy along the year, supported by the cruise business.

Dufry noted the two changes in legislation approved by the Brazilian government during 2019 – the ability to open border shops and the increase in the arrival duty free allowance – which will support organic growth in this important market in South America.

Commenting on the results, Díaz said: “2019 was characterized by an ongoing acceleration of organic growth, which supported by our marketing initiatives and new concessions increased to 3.0% in line with our mid-term average guidance.

“Organic growth has been benefiting from both solid contributions from new concessions and like-for-like growth, which has turned positive in Q3 reaching 1.3% and increasing to 2.3% in Q4. This performance was driven by several initiatives such as the implementation of the new commercial platforms as well as our ongoing refurbishment program covering 41,600 square meters of retail space, mainly in Spain, Sweden, Jordan and Turkey.

“Regarding business development, we added some 33,900 square meters of gross retail space in 2019, including the opening of new shops in Russia, Mexico, Kuwait, Brazil and several ships. We also already signed around 14,900 square meters to be opened in 2020 and 2021 in existing and new locations across the globe.

“In the context of further expanding our business going forward, in 2019 we achieved several milestones such as the acquisition we performed in Russia, consolidating our position in the country, and the two acquisitions in the United States through our Hudson subsidiary. Here we created additional growth opportunities allowing us to expand both in duty paid and duty free, while at the same time accelerate the penetration of the important airport F&B market.

“Last but not least, we successfully extended the AENA contract for up to five years covering all the airports in Spain. I am looking forward to rolling out to further locations in Spain our successful commercial initiatives and best practices already tested across five pilot airports to accelerate performance even more. It’s worth noting that this implementation will not need any significant capex investment.

“Moving forward, we will see the contribution of our new concessions, which we have added organically and through M&A in 2019. Therefore, we are optimistic about Dufry’s ability to deliver mid- and long-term sustainable growth and solid cash flows with our resilient business model.”